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EXPORT DEVELOPMENT

Agriculture as an Exporter

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AGRICULTURE AS AN EXPORTER

W. MARGOLIS

The Rhodesian economy has many different characteristics. In some sectors we can find a degree of development and sophistication that ranks with the most developed regions of the world; in others our economy has all the manifestations of underdevelopment. The one overriding characteristic that possibly warrants the classification of our economy as underdeveloped, is the large part that agriculture continues to play in the economic life of Rhodesia.

Not only is agriculture the predominant activity of our African population, but it also plays a very important part in the more commercially orientated sectors of the economy. As a primary industry which contributes 17 per cent to the gross Domestic Product, agriculture occupies a position of importance to the economy that is not now found in South Africa or in other more developed regions. A poor agricultural season has the capacity in Rhodesia to retard severely the growth rate of the economy. The industry's demands for goods and services, as well as its role as a source of raw materials and food, form the basis of much of Rhodesian commercial and industrial activity. Agriculture's role as an exporter further emphasises its importance to the Rhodesian economy, but unfortunately under present circumstances we can only deal with this aspect of the industry in the most general terms.

Agriculture in this country has in recent years been heavily dependent on the export market and has played an important role in this field. In 1965 45 per cent of Rhodesia's export earnings were derived from agricultural exports, of which 85 per cent were related to the tobacco industry. Following the imposition of mandatory sanctions in 1966, agriculture's contribution dropped sharply to 30 per cent, reflecting the severity of the impact of sanctions on this sector.

Since then agriculture has undergone a remarkable and painful transformation. Extensive diversification into other crops and products has resulted in a rapid expansion in their contribution to agricultural income, the extent of which can be gauged by the fact that the value of gross output of agriculture in 1971 was 50 per cent greater than in 1965, despite continuing restrictions on the size and value of the tobacco crop. In the export field this effort has resulted in agricultural exports increasing faster than those of the rest of the economy, with the result that in 1971 agriculture's contribution to domestic exports again exceeded 40 per cent. Moreover, already in 1972 exports have almost reached 1965 levels and are likely to exceed them by the year end.

This obviously means that the Rhodesian agricultural industry continues to be heavily dependent on exports. The extent of this dependence can only be appreciated when it is realised that 60 per cent of all the beef produced in Rhodesia in 1972 is being exported and over 80 per cent of the maize crop and nearly 90 per cent of the cotton crop is destined for world markets. Similar levels of dependence on world markets can be found in sugar, tobacco, coffee and tea and in fact over half the output of commercial agriculture in Rhodesia is now exported.

The export performance of agriculture is of critical importance to the economy and for this reason it is essential that the industry be allowed to maximise its output, but it must be appreciated that export dependence generates very real problems for the farmer.

Except for tobacco, Rhodesia's agricultural exports do not constitute a

large enough proportion of world trade to enable Rhodesia to influence world price levels. Thus the industry has very little influence over realisations received from world markets and the prices paid to farmers for their end product adhere closely to world trends. The farmer is fully prepared to respond to market forces, but he cannot, with the best will in the world, be expected to maximise his output and at the same time bear the full burden of the uncertainties which export dependence imposes in the field of agricultural production.

The need to provide for stability in agriculture is universal and almost all national Governments have found it necessary to develop policies which are designed to provide stability for their domestic industries. Under pressure from powerful agricultural lobbies Governments often embark upon a policy of price support in order to achieve income objectives for farmers. This generally involves setting domestic prices at an artificial level above average world prices. These domestic price levels are then maintained by physical restrictions on imports, tariff and levy barriers and intervention or residual buying on domestic markets at guaranteed prices.

Every industry would like to have assured markets at known prices, but where agriculture differs from other forms of economic activity, is that market forces make themselves felt when the farmer is at the end of an often extended production cycle. At this stage it is too late for him to adjust to the pressures of the market.

If the farmer is left to face these market forces alone, the production of essential agricultural products cannot be guaranteed and fluctuations in both price and supply becomes intolerable. Thus the basic need of the farmer is for a market system which, through its association with the State, can offer reasonable stability and an assured market outlet, while at the same time it does not protect him from the more fundamental shifts in the nature of demand. The size of Rhodesia's agricultural sector in relation to the rest of the economy, of necessity limits the extent to which the State can be expected to provide price support. But the nature of the industry and its dependence on exports warrants assistance from the rest of the community in securing reasonable market stability and assured market prices.

The result of efforts in Europe and America to increase farm incomes has been a steady expansion in the degree of self-sufficiency achieved by these regions and the creation of surpluses large enough to disrupt normal international agricultural trade. America has long recognised the danger of allowing this situation to develop unchecked and has an extensive system of controls over the level of production. The Commodity Credit Corporation of America exercises considerable restraint in world markets and far from being a disrupting force, American agricultural trade has a marked stabilising influence on world trade.

This is not true of the policies followed by the European Economic Community which provide for a high level of domestic prices supported and financed by a system of tariffs and variable levies which effectively disrupt normal agricultural trade. Intervention stocks of soft wheat, sugar, dairy products and deciduous fruits often reach embarrassing proportions and must be exported under highly subsidised conditions, given away as food aid, dumped or de-natured for consumption as animal feed. The funds for this operation are generated, in the main, by the high level of tariffs and levies imposed on imports of food into the Community.

This system is creating severe structural problems for agricultural trade

that can only be remedied by efforts in Europe to limit production or to ensure that producers bear the cost of exporting and storing their surpluses. Substantial pressure on the European Economic Community is being exerted by the United States who feel that the Community's efforts to protect and expand its domestic agriculture are likely to be at the expense of the more efficient agricultural industries of the world and could inhibit the growth of trade in agricultural products. It is hoped in many quarters that British entry to the enlarged community in 1973 will strengthen the hand of those who want to modify the agricultural policies followed by the Community.

Physical restrictions on the movement of agricultural commodities is yet another problem faced by agricultural exports. Quota restrictions on imports into Britain, the United States and South Africa distort the natural pattern of trade that might otherwise exist. Unlike tariffs, these barriers are impossible to overcome by increasing efficiency of production and do little to encourage international competition for trade while restricting the growth of new industry in countries excluded from quota arrangements. This is a problem both of national policy and international agreements.

The development of international commodity agreements between buyers and sellers and the growth of preference areas are both of concern to the international marketer. One must welcome the opportunity for stability that these offer, but at the same time warn against the very real danger that they will promote inefficiency and inhibit the growth of trade while attempting to exploit consumer markets. Instead of calling for the increased division of the world into preferential trading areas, I often wonder if we would not be wiser to follow America's example and call for decreased protection for established domestic industries and a diminution of preferential trading arrangements. The adoption of universal preferences for the underdeveloped countries of the world following the second meeting of the United Nations Conference on Trade and Development is certainly a step in the right direction.

Administratively, international trade is not getting any simpler and I am sure that my commercial associates will agree with this conclusion from their own experience in other fields. However, the problems of agriculture in this field are compounded by the difficulties of securing adequate freight of a suitable nature and the problems of currency uncertainty.

Agricultural freight often requires special handling, refrigeration and storage. It has to be carefully supervised and checked and because of its bulk and low unit value, it moves in considerable tonnages so that claims on quality or losses can be substantial. Often agricultural trade is hampered by the lack of capacity to move the volume required. In Rhodesia's experience, inadequate transport facilities and the inadequacy of freight capacity from Southern African ports has often forced a pattern of trade which on purely economic grounds might have been very much different.

Thus, the Grain Marketing Board, for instance, has on occasions been unable to exploit certain markets to the full because of transport difficulties and frequently other exporting agencies in Rhodesia are forced to supply a commodity to another region for logistical rather than market considerations.

In the beef market veterinary and health regulations in importing countries often restrict the form which exports must take and in some cases preclude imports from another region altogether. Thus, Australian meat exporters enjoy privileged access under quota to the American meat market, free of tariffs or levies. This effectively raises Australian producer prices for beef above the

levels achieved in the Argentine or in Rhodesia. European insistence, for veterinary reasons, on boneless beef is currently reducing net ex-Works realisations for beef in exporting countries. In addition many countries restrict the access of overseas exporters to specific types of product, reserving the higher value markets for their own producers. An example of this is the American and European demand for imported beef to be used in the manufacturing industry.

Recent events in the money market have also created problems for agriculture. The devaluation of the South African Rand and the American dollar reduced net realisations from some markets and continuing uncertainty as regards exchange rates is hampering operations on the futures market. It is to be hoped that a solution to this problem will shortly be resolved.

Rhodesia's position in all this is not improved by our being in a state of international limbo; we can and are overcoming the trade embargoes that are being used against us, but we must not lose sight of the fact that there is a definite cost involved.

Rhodesia's agricultural marketing system is in fact a combination of many different systems. Their individual operation and the nature of the institutions that serve them are complex and always changing. For these reasons it is not possible to describe, in a Paper of this duration, their operations or the principles upon which they are based. However, we can discuss certain aspects of the primary systems and the overall policy of single channel export marketing that is applied to the major export commodities.

Agricultural production is in the hands of a large number of small independent producers and the first requirement of a commodity which is destined for the export market is that someone assembles the product of the farmer together, standardises and defines its characteristics and then negotiates for its sale and transportation. Because of the constantly changing nature of the world market in which the product is to be sold, a further requirement of the market system for an export commodity is that somewhere in the system a stabiliser has to be built in, in order to ensure that the farmer does not have to face intolerable levels of instability.

The foundations of the present marketing system for grains, cotton, milk and beef were laid in the failure of private enterprise to provide adequate marketing services in the early stages of the production of these commodities. For this reason the statutory marketing boards have been developed as trading rather than regulatory institutions. This rule has been maintained because experience has shown that private enterprise is often reluctant to make the kind of investment that is required and where they have been invited to participate in the past they have been unable to provide the required services at the same cost as these services were being provided by the Boards themselves.

However, this does not mean that private enterprise is entirely excluded from the marketing system. On the contrary, there is a very extensive and deep participation by the private sector in many phases of the operation. It must also be recognised that the Boards themselves recruit their staff in the private sector and are administered along conventional lines. Where they do differ from private enterprise is that they are non-profit making and all their trading surpluses are returned to the producer.

Comparisons are often drawn between the tobacco marketing system and the systems used for the products mentioned above. These comparisons inevitably refer to the private enterprise nature of tobacco marketing and claim that

it is radically different from, and more efficient than, the system involving statutory Boards. In fact an examination of the systems handling grains and tobacco prior to 1965 reveals that in fact they are not dissimilar. In the tobacco system a statutory organisation directs deliveries and supervises the grading and sale of the crop. The crop is then auctioned at a central point and thereafter is handled by the buyer. In the grains system the only difference was that the G.M.B. actually provided storage and handling facilities—not because it has to by custom, but because private enterprise would not, or could not, provide these services as adequately or at the same cost to the farmer. Once the grain was assembled by the G.M.B. it was sold, by tender, in Salisbury and was thereafter handled by the buyer. Just as the need for security has brought the Tobacco Corporation into being, so this tender system of the Grain Marketing Board has had to be modified under present circumstances.

Our market system remains, therefore, essentially a partnership between public and private enterprise. The statutory marketing Boards are involved only to ensure that the marketing system provides the farmer with the security and stability that he must have if he is to be expected to maximise his output in the economic environment in which he operates.

The policy of single channel export marketing is applied to a wide range of agricultural products. Under this policy Government restricts the right to export specific products to a single organisation, usually a statutory marketing Board. This policy has the following objectives:

- (1) To spread the benefits and costs of exporting throughout the farming community.
- (2) To avoid harmful competition between Rhodesian exporters in the external markets.
- (3) To achieve economies of scale and optimum utilisation of the export infrastructure.
- (3) To ensure continuity of supply and the capacity to meet export demands for quality and quantity.

In many countries where export dependence is a feature of the agricultural industry, the basic objectives of single channel export marketing are being achieved by state supervision of the market system. In these countries the exporting companies or co-operatives are subject to very close direction and often have to be subsidised in order to enable them to export profitably. Such arrangements are obviously the result of traditional and established marketing systems being caught up in the current search for price and income stability for agriculture.

Although single channel export marketing is unique to agriculture, in agriculture it is extremely common and nearly all export orientated agricultural industries in the world are to some extent pursuing similar policies to the ones followed by Rhodesia. This is largely because the problems of agriculture in relation to the export market are common to all countries. There is a common need to spread the influence of the export market across the whole farming community, the need to optimise export conditions and provide for long term export development.

On the buying side there has been a marked tendency in the past 50 years for agricultural trade to be concentrated into the hands of fewer enterprises and this has forced a similar concentration on the selling side. So for example almost the entire U.S. grain crop, representing over half the grain marketed

in the world, is handled by six companies.

In the face of competition from industrial substitutes, agriculture is being forced to provide a more co-ordinated and streamlined export service. The needs of the manufacturer for stable supply conditions are being more widely recognised and the days of complex and cumbersome marketing systems are over. This can possibly be best illustrated by recent changes in the wool marketing system of South Africa and proposed changes to the Australian system. Fruit marketing in both these countries has been long established on a single channel basis and has not only developed a reputation for efficiency and aggressive, consumer-orientated marketing, but finds solid support among producers.

Rhodesia's export marketing system can therefore be seen as being entirely in step with the general trend in export policies followed by other countries in similar fields. It is a system that is designed specifically to meet the basic needs of the farmer and his markets. In so doing it also serves the main interests of Rhodesia by ensuring that agriculture maximises its output and therefore its export earnings and continues its role as a primary force in the economy.

Agricultural potential in Rhodesia far exceeds existing and projected local demands for food and raw materials. Unless production is curtailed, therefore, to meet local needs only, Rhodesian farming is going to continue to be faced with the problems associated with the world market for agricultural products.

If we cannot penetrate world markets at ruling prices what is the future of agriculture? It would mean a reduction by half in the level of production from commercial farms, considerable unemployment among the African population and a drastic reduction in rural incomes. It would cripple industry and commerce through lack of foreign exchange and would reduce the size and value of Rhodesia's domestic markets for a wide range of goods and services. Such a situation cannot be contemplated and the greatest care must be taken to see that existing export arrangements are not disrupted to the detriment of agriculture's export performance.

Our market system is open to change and is in fact constantly changing, as it moves to meet the needs of the people it serves—the producer and consumer. It is well geared to face the challenge of exporting in the future and will have to do so in a world of intensified problems in the short term due in part to factors such as the enlargement of the European Economic Community, increased protection of domestic markets and continuing uncertainty in the money market.

In the long term we have to decide where our advantage lies. Should Rhodesia pursue regional arrangements or actively seek more liberalised world trading conditions? In our present state there is considerable attraction in the possibility of regional co-operation. However, internal markets in Southern Africa cannot absorb our surpluses which are largely in the same products throughout the region. Regional co-operation for this reason alone is unlikely to yield substantial benefits for agriculture.

One cannot ignore the fact that the markets for our main exports of beef, maize, cotton, sugar and tobacco are all in the more sophisticated countries of the world where incomes are high and industry has created markets for raw materials on a very extensive scale. It is in our best interest that we gain access for our products to these markets and that these countries be made to

realise that it is also in their interests that our products be permitted to compete on an equal basis with those of their domestic agricultural industries.

Given free and unimpeded access to world markets, Rhodesian agriculture can compete effectively with the farming industry of the world. Rhodesian agriculture is highly efficient and if allowed to do so cannot only expand its contribution to Rhodesian export earnings but also to the standards of living of the majority of Rhodesia's population who depend on the industry for income and subsistence.



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